



**THOMAS L. GARTHWAITE, M.D.**

Director and Chief Medical Officer

**FRED LEAF**

Chief Operating Officer

COUNTY OF LOS ANGELES  
DEPARTMENT OF HEALTH SERVICES  
313 N. Figueroa, Los Angeles, CA 90012  
(213) 240-8101

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August 15, 2002

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD  
Director and Chief Medical Officer

**SUBJECT: HIGH DESERT HOSPITAL**

On June 26, the Board of Supervisors directed the Department of Health Services (DHS) to conduct an analysis of the various proposals related to the preservation of High Desert Hospital and report back with its recommendations prior to the Beilenson Hearings.

DHS staff met with representatives of the High Desert Advisory Council on July 5 to review the Department's assumptions with regard to the financing requirements that would be associated with any proposal to keep the facility open as a hospital. The High Desert Advisory Council includes representatives from several medical groups, the two private hospitals, Kaiser Permanente, and community advocates from the Antelope Valley.

High Desert Hospital presently has an average daily census of 70. This includes 19 acute medical, four surgical acute, four medical/surgical intensive care, 34 skilled nursing, and nine tuberculosis skilled nursing beds. The projected operating subsidy for High Desert Hospital in Fiscal Year 2003-04 is \$27.4 million. Under DHS' restructuring proposal presented to the Board in June, \$17.6 million of this cost in Fiscal Year 2003-04 would be reinvested in ambulatory care services at a newly established Multi-Service Ambulatory Care Center (MACC) that would replace the inpatient hospital. In addition to increased outpatient medical services, the MACC would also include urgent care services that are not presently available at the hospital. Closing the inpatient program

at High Desert would result in a savings of \$9.8 million in Fiscal Year 2003-04.

The High Desert Advisory Council has proposed \$12 million in funding to support High Desert Hospital. This funding would be derived from \$10.5 million in contracts that would be established with the public and private sectors, as well as a recommended \$1.5 million in administrative efficiencies at the hospital. All of the funding elements of their proposal are tentative and any additional revenue would be contingent upon patient utilization, which, at this point, is not guaranteed.

Under this proposal, the High Desert Medical Group, Sierra Family Medical Group, and Kaiser Permanente would purchase a combined total of up to an additional 25 skilled nursing beds at the facility at a proposed daily rate of \$320 per bed. The proposal assumes \$2.9 million in revenue associated with these additional skilled nursing beds. The proposal also assumes that Antelope Valley Hospital would purchase a maximum of five medical/surgical beds at a rate of \$1200 per bed. The utilization of these beds would depend upon the overflow from the emergency room at Antelope Valley and with no apparent utilization guarantee. The High Desert Medical Group and the Sierra Family Medical Group also propose to purchase a total of three additional medical/surgical beds at the same rate. The resulting revenue, if all of these beds were fully utilized, would be \$900,000. High Desert Medical Group also proposes to perform up to 100 additional outpatient surgeries at the hospital, which they assume would result in \$80,000 in annual revenue.

With the exception of the additional 100 outpatient surgeries, the High Desert Advisory Council's proposal does not propose to expand ambulatory care services in the Antelope Valley, but rather recommends that these services remain in their current configuration.

The proposal identifies \$700,000 in unbudgeted revenues and several administrative efficiencies that the group believes could improve the performance of the hospital and lead to significant savings. The \$700,000 in unbudgeted revenue is already included in the Department's fiscal forecast and, therefore, cannot be used as a funding source under this proposal.

The cost assumptions included in the report are extremely optimistic. Relying on these assumptions could pose a significant financial risk to DHS, should the actual costs exceed the estimates and the revenues fall short.

If High Desert is retained as an inpatient hospital, it would require an estimated \$23 million in seismic upgrade costs by 2008, as required by state law. The cost associated with these requirements in Fiscal Year 2002-03 is estimated at \$2 million.

The proposal submitted by the High Desert Advisory Council also assumes that the County would enter into an agreement with the California Department of Corrections for the purchase of up to 50 skilled nursing beds, for net revenue generation of up to \$5.6 million. While this proposal would require some capital investment to accommodate the security needs of these additional beds, as well as the negotiation of an appropriate rate and level of commitment as to utilization, the Department believes this recommendation merits further consideration.

The High Desert Advisory Council is to be applauded for the considerable time and effort put into this proposal. However, implementation would require the redirection of the programmatic recommendations approved by your Board on June 26, which includes a substantial increase in ambulatory care services in the Antelope Valley area. The Department continues to believe that the establishment of a comprehensive ambulatory care service model that includes expanded access to outpatient surgical procedures, as well as urgent care services, would be of greater benefit to the community than the maintenance of the existing hospital. Presently, 80 percent of the surgeries performed at High Desert Hospital are done in the outpatient setting, underscoring the value of expanding this capability at the facility.

The MACC that is proposed to be sited at High Desert Hospital is not expected to require all the existing hospital space, thus it is possible that limited space may be available to house additional skilled nursing beds that serve both the Department of Corrections and the Antelope Valley provider community. As indicated above, DHS believes there is value in further pursuing the skilled nursing proposals, particularly given the revenue generation potential. This additional revenue could be used to augment indigent health care services in the Antelope Valley. To this end, DHS will be continuing discussions with the Department of Corrections and the Antelope Valley private provider community related to increasing the skilled nursing capacity in the area.

While the lack of inpatient bed capacity in the Antelope Valley is acknowledged, the Department has advocated strongly in the strategic plan that the increased availability of urgent care services, both at High Desert Hospital and the recently opened South Antelope Valley Clinic in Palmdale, will serve to alleviate much of the pressure presently being experienced by the emergency rooms at Antelope Valley Hospital and Lancaster Community Hospital.

Additionally, based upon conversations with the Antelope Valley provider community, as well as the evaluation of the plan submitted by the High Desert Advisory Council, the Department believes that the provision of additional skilled nursing services could serve to lessen the strain on inpatient capacity in the community.

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In summary, while the Department believes this proposal as a whole presents a significant financial risk and does not support the Board-approved goal of strengthening access to health care through expanded ambulatory care services, it does feel there is a value to pursuing the various proposals related to increasing skilled nursing services. The Department continues to recommend that the Board proceed with the implementation of the June 26 proposal to eliminate the provision of inpatient services at High Desert Hospital and proceed with the development and implementation of a MACC at the facility. DHS is further recommending that the Board direct the Department to explore and negotiate the possibility of increasing skilled nursing capacity at High Desert Hospital.

Please let me know if you have any questions.

TLG:ak

c: Chief Administrative Officer  
County Counsel  
Executive Officer, Board of Supervisors